

(depreciation rate range), current reserve levels should also be considered in light of the potential for the negative reserve effect discussed below.

As an aspect of Option A (basic factors range), equal life group (ELG) procedures should continue to be used even if industry-wide data will be the basis to determine a range of curve shapes for accounts.

However, in order to avoid a potential effect of less than full depreciation of plant costs under Option B (which the Commission sees as an effect of not using the rate formula), the Commission can permit a carrier to file a full study if warranted by unique circumstances, which would include a negative reserve. The best safeguard against such deficiency, however, is for the Commission to guard against ranges that are too small. Narrow ranges will result in deficiencies.²⁷

A mechanism is also needed to permit a carrier to amortize deficiencies which may arise under options A or B. If the price cap carrier option is selected, there is little likelihood that a reserve deficiency would occur because a carrier would be fully responsible for choosing its depreciation

27 The Commission appears to be concerned about unintended, negative consequences to the reserves that may escape the carriers' attention. NPRM, para. 31. While we appreciate the Commission's concern, it should be noted that the carrier's objective (and legal duty) is to maximize shareholder value. Consequently, we are vigilant as to those circumstances that would impact us adversely. The price cap carriers have every incentive to manage costs and expenses prudently over the long term. However, we encourage the Commission to continue its efforts to permit carriers to respond to changing technology and market conditions and to minimize administrative burden.

rates -- another advantage of selecting the price cap carrier option.

C. Simplification Of Salvage Is Not In Keeping With GAAP.

The Commission asks whether to eliminate salvage from the depreciation process. Carriers would be required to book the cost of removal and salvage as current period charges and credits instead of treating salvage as part of a depreciation basic factor.²⁸ While the Commission's suggestion is certainly a well-intentioned effort toward further simplification, it should not be adopted for the reasons set forth below.

The revision proposed by the Commission would be contrary to Generally Accepted Accounting Principles (GAAP). Currently GAAP requires that when an asset (fully or partially depreciated) is retired or sold, a gain or loss is to be recognized equal to the difference between the asset's carrying value (net book value) and the proceeds received for the asset. Under group depreciation, assets are combined into homogeneous groups and depreciated using average depreciation rates. Gains and losses are considered in determining the average depreciation rates. Actual gains and losses are not recognized. Gross salvage is recognized as a charge or credit to accumulated depreciation. This group depreciation method is a generally accepted method of depreciation accounting. When applying group

28 NPRM, para. 43.

depreciation, GAAP prescribes that the difference between the carrying value of the assets (net book value) and the net proceeds from the disposition of an asset must be charged or credited to the depreciation reserve. This is also what §32.3100(c) of the Commission's rules currently requires.²⁹ The proposed methodology would conflict with existing accounting methods and the Commission's rules.

In addition to failing to comply with GAAP, the proposal should be rejected because it fails to simplify carriers' administrative tasks. Booking the cost of removal and salvage as current period charges and credits will not change the extent of required carrier resources. It will, however, shift the cost of the current process to accounting and financial processes. Because the proposal does not ultimately further the Commission goal of simplification, it should be rejected.

III. CONCLUSION

For the reasons discussed above, the Pacific Companies urge the Commission to adopt the price cap carrier option which will accomplish the Commission's goal of simplifying the depreciation prescription process. This option would allow LECs to set depreciation rates which respond to rapid technological change and is consistent with the goals of price cap regulation. If, however, the price cap carrier option is not selected, the

²⁹ 47 C.F.R. §32.3100(c).

Commission must choose an option that is tailored to permit price cap carriers to meet the requirements of an increasingly competitive environment.

Respectfully submitted,

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Date: March 10, 1993

1991 REPRESCRIPTION-FINAL OUTCOME
WITH ACTUAL PLANT BAL. & BOOK RES. X
FCC BASIS

ATTACHMENT I
PAGE 1 OF 3

COMPANY: PACIFIC BELL
STATE : CALIFORNIA

STATEMENT A

SUMMARY OF DEPRECIATION RATES
ALL VINTAGE RECOVERY

CLASS ACCOUNT OR SUBCLASS NUMBER	OF PLANT	RATES IN EFFECT 12/31/90				RATES EFFECTIVE IN 1991			
		REM LIFE YEARS	FUTURE NET			REM LIFE YEARS	ADJUSTED FUTURE NET		
			A RESERVE %	B SALVAGE %	C RATE %		F RESERVE %	G SALVAGE %	H RATE %
2112	MOTOR VEHICLES	5.1	25.2	18.0	11.1	4.6	35.0	12.0	11.5
2114	SPECIAL PURPOSE VEH	4.7	27.2	51.0	4.6	3.0	39.7	51.0	3.1
2115	GARAGE WORK EQPT	6.0	27.2	1.0	12.0	5.2	37.3	-6.0	13.2
2116	OTHER WORK EQUIPMENT	8.3	27.2	1.0	8.7	7.4	33.9	3.0	8.5
2121	BUILDINGS	38.0	9.2	1.0	2.4	32.0	11.8	-4.0	2.9
2122	FURNITURE	12.4	15.5	3.0	6.6	11.2	30.2	3.0	6.0
2123.1	OFFICE SUPPORT EQPT	7.1	13.6	3.0	11.5	6.5	22.4	3.0	11.5
2123.2	COMPANY COMMUN EQPT	5.1	34.1	-1.0	13.1	3.9	59.4	-1.0	10.7
2124	GEN PURPOSE COMP	3.5	44.1	3.0	15.1	2.7	60.4	1.0	14.3
2211	ANALOG ELECT SWITCH	9.6	27.6	5.0	7.0	7.5	40.0	-1.0	8.1
2212	DIGITAL ELECT SWITCH	12.5	16.2	5.0	6.3	11.1	23.3	3.0	6.6
2215.1	STEP BY STEP	4.9	78.3	-10.0	6.5	0.5	110.0	-10.0	0.0
2215.2	CROSSBAR	4.5	48.5	-6.0	12.8	0.5	106.0	-6.0	0.0
2220.2	OPERATOR SYS-XBAR	5.9	37.9	0.0	10.5	2.2	75.6	-2.0	12.0
2220.3	OPERATOR SYS-ANALOG	5.9	37.9	0.0	10.5	2.6	35.7	-3.0	25.9
2220.4	OPERATOR SYS-DIGITAL	5.9	37.9	0.0	10.5	3.5	14.2	5.0	14.7
2231	RADIO SYSTEMS	8.2	35.5	-4.0	8.4	6.7	43.7	-2.0	8.7
2232.11	DIGITAL DATA SYSTEMS	5.7	37.2	-4.0	11.7	4.5	59.5	-4.0	9.9
2232.12	DIGITAL CIRC-OTHER	7.6	31.1	1.0	8.9	6.6	42.7	1.0	8.5
2232.2	ANALOG CIRC-OTHER	6.4	37.0	0.0	9.8	4.8	52.8	0.0	9.8
2351	PUBLIC TEL TERM EQPT	4.1	44.6	8.0	11.6	3.4	68.8	8.0	6.8
2362	OTHER TERMINAL EQPT	3.4	53.5	-3.0	14.6	2.5	51.3	-3.0	20.7
2411	POLES	19.5	53.4	-84.0	6.8	18.5	60.7	-84.0	6.7
2421.1	AERIAL CABLE-EXCH	14.1	34.8	-15.0	5.7	13.2	42.6	-14.0	5.4
2421.2	AERIAL CA-INTEROFC	6.1	70.9	-18.0	7.7	7.4	82.0	-10.0	3.8
2422.1	U.G.CABLE-EXCHANGE	19.3	26.5	-12.0	4.4	18.0	33.1	-12.0	4.4
2422.2	U.G. CABLE-INTEROFC	12.9	30.4	-3.0	5.6	7.9	41.4	-3.0	7.8
2423.1	BURIED CABLE-EXCH	17.4	31.4	-8.0	4.4	15.0	37.5	-6.0	4.6
2423.2	BURIED CA-INTEROFC	10.9	39.4	-4.0	5.9	7.1	49.1	-2.0	7.5
2424	SUBMARINE CABLE	5.9	78.1	4.0	3.0	3.4	87.8	-12.0	7.1
2426	INTRABLDG NETWORK CA	12.0	27.0	-15.0	7.3	11.5	38.8	-14.0	6.5
2431	AERIAL WIRE	5.3	37.0	-39.0	19.2	4.8	74.7	-39.0	13.4
2441	UNDERGROUND CONDUIT	46.0	18.6	-24.0	2.3	44.0	22.8	-18.0	2.2

NET SERVICE VALUE AMORTIZATION: 36 MOS. FOR CROSSBAR & 12 MOS. FOR STEP BY STEP

June 5, 1991
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STATEMENT B

CHANGES IN ANNUAL DEPRECIATION ACCRUALS RESULTING FROM
CHANGES IN DEPRECIATION RATES
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CLASS ACCOUNT OR SUBCLASS NUMBER OF PLANT	RATES IN EFFECT 12/31/90				RATES EFFECTIVE IN 1991				CHANGES IN ACCRUALS P=L-M	
	1/1/91 INVST	RATE J=(H8I)/100	AMORT K88	TOTAL L=J+K	RATE M=(H8I)/100	AMORT N88	TOTAL O=M+N			
2112 MOTOR VEHICLES	271306	30115	53	30168	31200	53	31253	1085		
2114 SPECIAL PURPOSE VEH	1654	76	0	76	51	0	51	-25		
2115 GARAGE WORK EQPT	13037	1564	2	1566	1721	2	1723	157		
2116 OTHER WORK EQUIPMENT	128535	11183	27	11210	10925	27	10952	-258		
2121 BUILDINGS	1784387	42825	-15621	27204	51747	-15621	36126	8922		
2122 FURNITURE	86018	5677	606	6283	5161	606	5767	-516		
2123.1 OFFICE SUPPORT EQPT	52680	6058	133	6191	6058	133	6191	0		
2123.2 COMPANY COMMUN EQPT	132463	17353	-1519	15834	14174	-1519	12635	-3179		
2124 GEN PURPOSE COMP	1339514	202267	0	202267	191551	0	191551	-10716		
2211 ANALOG ELECT SWITCH	2652029	185642	32042	217684	214814	32042	246856	29172		
2212 DIGITAL ELECT SWITCH	2104070	132956	11688	144244	138869	11688	150557	6313		
2215.1 STEP BY STEP	34138	2219	0	2219	0	65548	6554	4335		
2215.2 CROSSBAR	77210	9883	0	9883	0	0	0	-9883		
2220.2 OPERATOR SYS-XBAR	90730	9527	0	9527	10888	0	10888	1361		
2220.3 OPERATOR SYS-ANALOG	15297	1606	0	1606	3962	0	3962	2356		
2220.4 OPERATOR SYS-DIGITAL	19110	2007	0	2007	2809	0	2809	802		
2231 RADIO SYSTEMS	96672	8120	1336	9456	8410	1336	9746	290		
2232.11 DIGITAL DATA SYSTEMS	159238	18631	1687	20318	15765	1687	17452	-2866		
2232.12 DIGITAL CIRC-OTHER	2251636	200397	27614	228011	191391	27614	219005	-9006		
2232.2 ANALOG CIRC-OTHER	968391	94902	19581	114483	94902	19581	114483	0		
2351 PUBLIC TEL TERM EQPT	160832	18457	-170	18407	10937	-170	10767	-7720		
2362 OTHER TERMINAL EQPT	181006	26427	-1045	25362	37468	-1045	36403	11041		
2411 POLES	462859	31474	6382	37856	31012	6382	37394	-462		
2421.1 AERIAL CABLE-EXCH	1743734	99393	31385	130778	94162	31383	125547	-5231		
2421.2 AERIAL CA-INTERFC	19183	1477	1853	3330	729	1853	2582	-748		
2422.1 U.G.CABLE-EXCH	2303987	101375	25657	127032	101375	25657	127032	0		
2422.2 U.G. CABLE-INTERFC	501074	28060	7530	33390	39084	7530	46614	11024		
2423.1 BURIED CABLE-EXCH	1452838	63925	14087	78012	66831	14087	80918	2906		
2423.2 BURIED CA-INTERFC	116514	6874	2349	9223	8739	2349	11088	1865		
2424 SUBMARINE CABLE	11187	336	452	788	794	452	1246	458		
2426 INTRABLDG NETWORK CA	360204	40895	0	40895	36413	0	36413	-4482		
2431 AERIAL WIRE	32001	6144	-1215	4929	4288	-1215	3073	-1856		
2441 UNDERGROUND CONDUIT	1889604	43461	5759	49220	41571	5759	47330	-1890		
TOTALS	21713158	1451106	170633	1621739	1467801	177187	1644988	23249		
COMPOSITES		6.7		7.5	6.8		7.6			

NET SERVICE VALUE AMORTIZATION: 36 MOS. FOR CROSSBAR & 12 MOS. FOR STEP BY STEP

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1991 REPRESCRIPTION-FINAL OUTCOME
WITH ACTUAL PLANT BAL. & BOOK RES. X
FCC BASIS

COMPANY: PACIFIC BELL
STATE : CALIFORNIA
STATEMENT C - RESERVES

SUMMARY OF RESERVES 1-1-91

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ACCOUNT	INVESTMENT	BOOK RESERVE		ADJ. BOOK RESERVE WITH AMORTIZATION		UNAMORTIZED BALANCE	THEORETICAL RESERVE	
		A	B	C=B/A	D		G	H=G/A
2112 MOTOR VEHICLES	271365725	94846754	35.0	94899425	35.0	52671	119374519	44.0
2114 SPECIAL PURPOSE VEH	1654152	656294	39.7	656708	39.7	414	487975	29.5
2115 GARAGE WORK EOPT	13036876	4857350	37.3	4859340	37.3	2190	6335922	48.6
2116 OTHER WORK EQUIPMENT	128534707	43407982	33.8	43514955	33.9	26973	48457585	37.7
2121 BUILDINGS	1784384398	226935048	12.7	211314298	11.8	-15420750	380074345	21.3
2122 FURNITURE	86017723	23337731	29.5	25963610	30.2	605859	25375228	29.5
2123.1 OFFICE SUPPORT EOPT	52680390	11640539	22.1	11793430	22.4	132891	16120199	30.6
2123.2 COMPANY COMMON EOPT	132442983	80199717	60.5	78680967	59.4	-1518750	74046807	55.9
2124 GEN PURPOSE COMP	1339513996	800537971	60.4	800537971	60.4	0	748788324	55.9
2211 ANALOG ELECT SWITCH	2652020761	1028506408	38.8	1060548610	40.0	32042122	1209325115	45.6
2212 DIGITAL ELECT SWITCH	2104070128	479472731	22.8	491160859	23.3	11688128	473415779	22.5
2215.1 STEP BY STEP	34137958	30998231	90.8	37331753	110.0	4553502	33455199	98.0
2215.2 CROSSBAR	77209379	81842155	106.0	81842155	106.0	0	74584453	96.6
2220.2 OPERATOR SYS-XIDAR	90730010	48597130	75.6	48597130	75.6	0	63873927	70.4
220.3 OPERATOR SYS-ANALOG	15296727	5456012	35.7	5456012	35.7	0	10937160	71.5
221.4 OPERATOR SYS-DIGITAL	19109539	2704164	14.2	2704164	14.2	0	7643816	40.0
2231 RADIO SYSTEMS	96672393	40896887	42.3	42232639	43.7	1335752	42729198	44.2
2232.11 DIGITAL DATA SYSTEMS	159238356	93018613	58.4	94705113	59.5	1486500	91562055	57.5
2232.12 DIGITAL CIRC-OTHER	2251653755	933990737	41.3	961605193	42.7	27614456	882649056	39.2
2232.2 ANALOG CIRC-OTHER	968390779	492069690	50.8	511630404	52.8	19580794	546172399	56.4
2351 PUBLIC TEL TERM EOPT	160831844	110788024	68.9	110618524	68.8	-169500	92639143	57.6
2342 OTHER TERMINAL EOPT	181005305	93974660	51.9	92909910	51.3	-1064750	91045769	50.3
2411 POLES	442858585	274608969	39.3	280980469	40.7	6381500	293452343	63.4
2421.1 AERIAL CABLE-EXCH	174373733	711984287	40.8	743368941	42.6	31384654	737599369	42.3
2421.2 AERIAL CA-INTERFC	19183020	13802520	72.4	15735624	82.0	1853096	12871804	67.1
2422.1 U.G.CABLE-EXCHANGE	2303904556	737331220	32.0	762988608	33.1	25457388	811003268	35.2
2422.2 U.G. CABLE-INTERFC	501074042	199939303	39.9	207449414	41.4	7530111	314173424	62.7
2423.1 BURIED CABLE-EXCH	1452837716	530210349	36.5	544296901	37.5	14004552	536097117	36.9
2423.2 BURIED CA-INTERFC	116513828	54859619	47.1	57200317	49.1	2348498	71422977	61.3
2424 SUBMARINE CABLE	11186754	9369699	83.8	9821449	87.8	451750	10985392	98.2
2426 INTRABLDG NETWORK CA	560204021	217177163	38.8	217177163	38.8	0	250971401	44.8
2431 AERIAL WIRE	32001294	25118467	70.5	23903467	74.7	-1215000	24753073	83.6
2441 UNDERGROUND CONDUIT	1887604237	425603823	22.5	431342323	22.8	5758500	445946600	23.6
TOTALS	21713154262	7958938375	36.7	8136124124	37.5	177185751	8530370743	39.4

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